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What the Educators Do to Your Tax Bill

The Waste and Inefficiency of Our Public School System Is Reflected in Rising Real Estate Tax Bills

By FRANK J. MURRAY

PROFESSIONAL educators have built for themselves one of the most tightly held autocracies in existence. It is based upon a concept of themselves as a superior ruling class, upon the finest propaganda machine in this country, upon appeals not only to blind parent love, but also to fear.

Even though his eyes are opened to the shortcomings in the educational system the parent is afraid to point out these shortcomings for fear his child will suffer in consequence of such an act.

The politician is busy fearfully answering what may be called an "or else questionnaire" which implies that he had better do what the professional educator wants or it will be just too bad for him.

The taxpayer—that poor misguided and peculiar animal born to work and produce for the spender—if he so much as cries out that there is no bread in the house and that he cannot pay the unjust school tax, is held up before the public as the powerful and sinister destroyer of education.

There is good reason for the lack of clear thinking by the public on the school finance problem. The public is constantly hearing of low standards of education and low salaries based upon conditions in some backward locality. Generally the inference is made that the condition complained of exists in the local community where the speech or written message is being delivered. This confusing propaganda program is often used to obtain higher salaries for those already receiving two or three times the salary complained of in the backward area.

HERE is a subject which has not previously been discussed in The Mortgage Banker and one that has received little attention at real estate and mortgage conventions. The author says that our professional educators have built for themselves a tight little autocracy — one which politicians and taxpayers have been averse to disturbing. The principal reason has been that most people are prone to consider education as something semi-sacred. Politicians have been afraid to delve into the relationship of educational costs and property taxes—for obvious reasons. Mr. Murray is president of the Taxpayers Federation, Inc., of Indiana and spoke on this subject at the National Real Estate Tax Conference. This article, we believe, will be of great interest to every mortgage and real estate man.

The curing of the evil complained of by the educators could be accomplished if they would simply exert their influence to put a stop to the granting of additional increases for those on the top of the system until those not so fortunate were brought up to the high standards now existent in the larger communities where the greatest demands for more and more are constantly heard.

No other governmental service can be of such general benefit as education. Nor is there any other service that makes its claims for existence with more lofty phrases. Yet it collects its cost more unjustly than any other governmental unit.

Nor is there any other governmental service that within itself spreads its direct benefits so haphazardly, selfishly and unjustly.

Educational finance will not be placed upon a sound and just base unless and until our local citizens realize that school administration boards and employees are human beings subject to the same errors as any other governmental employees, be they elected or appointed.

Every school activity and expenditure must be questioned and scrutinized as those of the most lowly elected local official.

It has been my experience that generally there is more consideration and thought for the taxpayer among local

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officials elected directly by the people—ordinary politicians, if you will—than among the school officials who make high-sounding claims of teaching justice and equality and the pursuit of happiness but who fail personally to practice what they preach.

Opinions CAN Be Changed

One of the real underlying faults with educational finance is that many boards or commissions are swayed in their decisions by persons who have a mercenary interest in them. One thing that must be done is to provide for more democratic control.

The administrative and legislative operations of the schools should be divided.

The legislative body of the schools should meet in the evenings with such meetings open to the public not only in theory but in practice. It should be necessary for the administrative heads of the schools to present their requests for changes of policy and budgetary expenditures in these public meetings. There should be public participation in these discussions on the same basis as in city councils and other legislative bodies. Such a legislative body should be elected by the people.

The 1933 depression should have proved conclusively to the school men that there is a bottom to the property taxpayer's pocket. Tax delinquencies ranging above 50 percent in some localities demonstrated that when it is a choice between feeding the child and feeding the schools, the parent and tax payer feeds the child. The place education holds was clearly defined. It follows the home and does not precede it.

Knowing that a bottom does exist and noting the competition for that dollar now being exerted by welfare, old age pensions and other forms of social expenditures, most of the professional educators realize there will be even less money, and not more, available for their program in the future.

Welfare expenditures are frozen into the local tax picture as bonds and interest were in 1933. Another depression with loss of income and delinquent taxes will bring the schools face to face with a serious financial problem. Consideration of how to prepare for such a situation should make them begin to be more considerate of the tax payer.

The reduction in the number of school children, reported in 36 of the 48 states, and the increased number of old age pensioners have a relationship, and any attempt of school authorities to carry on at the same or increasing costs represents an attempt to stop a natural change that must be made and will be made.

A declining birth rate and restricted immigration are making definite inroads into the number of pupils. At the same time the medical profession is providing a longer life—and thereby increasing the number of pensioners.

HOW should we finance education? Mr. Murray says from current revenue. But should it then be necessary to establish a capital tax, through failure of this source of income, then the cost of education ought to fall on all forms of capital and not on property alone. The income from property ought to be established and taxes collected on that basis. School districts should not be smaller than one county, and in some cases should include more than one. Railroad and utility taxes ought to be allocated for the education of children and returned to the schools on a per-pupil basis. Present system is unfair because revenues that accrue from a number of counties are returned to one county where the properties are located. These are some of the suggestions Mr. Murray presents for consideration.

The 36 states reporting pupil losses show a drop ranging from a mere fraction to 7.2 percent in North Dakota. But while Indiana, for example, was losing 5.1 percent of its pupils it gained 2.5 percent more teachers.

We have heard many talks designed to induce us to agree to raise the compulsory school age and keep the children in public schools until they reach the ages of 18 to 21. A program has been advanced to put colleges into the public school system, as we have high schools. There is a definite campaign on foot to return adults to the classroom. Another campaign is under way to decrease the teacher load. These campaigns are the natural outgrowth of a continuing selfish, central thought—*save our jobs.*

In considering school finance we must not forget that the shift from youth to age in population must carry with it a proportionate shift in finances from expenditures for youth to expenditures for the aged.

Balancing the federal budget is another bugaboo. In some of the larger Indiana counties the amount of federal money spent on welfare and local projects, in the name of relief, is roughly equal to the total property tax now being raised in these counties. And no federal taxpayer is today putting up much of that money for WPA and allied federal emergency expenditures. It is being borrowed and will have to be repaid some day by tapping new income brackets or new sources of revenue, if such can be found.

The federal budget cannot be balanced unless and until the local communities take over more of the expenditures now financed by the federal government. And, incidentally, there is good reason to believe that with the proper understanding on the part of local, state and federal officials, and the adoption of an integrated program, the cost of the activities now financed by the federal government and not charged to local government, can be reduced materially without suffering to anybody. The balance must then be met in two ways—by federal income taxes on lower income groups, and by assumption by the state and local governments of the remainder of the cost.

Overlapping at Fault

The greatest offenders in overlapping governmental units are the school systems of which we have 118,667. There should not be, at most, over 3,052 school districts, or one for each county, so we have at least 115,615 useless, overlapping school districts. Not only do we have the financial waste that this condition makes necessary, but the children are denied the educational opportunities to which they are entitled. Rural children are forced to ride farther and longer due to the system. In Petersburg, Indiana, to give you an example, rural school children are driven into town, through the town, and on out into the country in three different sets of buses to three different rural school districts.

Unnecessary schools are built. Extra bus routes are required. School supplies bought in small lots at retail or higher prices from designing suppliers—all these eat into the tax funds. Small classes require extra teachers per hundred pupils, extra janitors and maintenance cost, bonds, interest at higher

rates, plus lands taken from the tax rolls for school locations. All spell wasted tax moneys.

In my own county we have fifteen school districts. We need only one. If they were all combined into one school district that district would even then have only one-half the number of children now found in the Indianapolis school district, for example. The educational problem in our county-wide district should be only half that now coped with in Indianapolis.

Waste Is Widespread

If all the children in our state were in only one school district that district would contain just about one-half the number of pupils in the New York City school system.

It is estimated that due to the lack of proper school districts, inefficiency of financial planning and poor design, over 25 percent of the cost of school construction is wasted.

At least 20 percent of the cost of transportation could be saved, particularly with larger school districts and elimination of overlapping bus routes. Between 15 percent and 20 percent of the money spent for school supplies, text books, etc. is wasted by poor purchasing methods. Corresponding savings could be made on maintenance costs.

When they talk about additional funds for educational expenditures the proper answer to the educational authorities of this country should be, "Not one additional dime until you have straightened out this deplorable waste of money by correcting the faults in the educational system."

Instead of lobbying for increased pensions, additional buildings, higher salaries and other advantages for themselves as a group, the educators should be advised to lobby for the proper size school districts, and for the stopping of waste in the location, design and equipment of school buildings. They should be asked to lobby for the elimination of waste and inefficiency in the purchase of school supplies. If they will accomplish all this, and they can, it will be soon enough to consider additional money for salaries in the higher brackets.

All that has been said here up to the present time supports a simple statement: no money should be given to the educational authorities of this country until these glaring faults in the system have been corrected.

Any man or woman who has attended a session of the state legislature will recognize the justice of placing the burden of making the corrections upon the educational group. There is not, nor has there ever been, a more effective lobby than that maintained by organized educators of the United States. I estimate that if the organized educators would join with the taxpayers and citizens in a program for the establishment of an economical, efficient, properly financed educational program, we would see immediate improvement, and within six years (approximately three state legislative sessions) the problem would be solved. The ability of this group to obtain for themselves increased salaries, pensions, tenure and practically anything they start out to get gives definite support to this statement.

In considering the matter of educational finance we come to the proposal that the federal government join in financing the school program. We the people should not permit the federal government to join in such a program unless by provisions of a constitutional amendment which should be definitely clear as to the per capita amount and method of distribution. Congress should have no control and thereby be freed from the influence of the organized educational lobby.

Power of the Lobby

If you have had any experience with the power of the educational organization lobby exerted upon the individual state legislatures you will recognize immediately that if the way is opened on a national scale for the Congress of the United States to vote money to local and state educational units, the full force of the present 48 state lobbies will be exerted in one mighty movement upon the Congress. Within a short period of time the entire American educational system will come under the domination of an oligarchy of politicians and educators located in Washington, D. C.

The taxpayers interested in school finance know from experience that if the state steps into the financial picture the tendency is for the local unit to lean more and more upon the state, and for the state with great satisfaction to absorb more and more of the local power.

We generally agree that almost all taxes other than property taxes should be collected either by the state or by the federal government. But the protection of local government lies in providing for a specific method in which these funds are to be returned to the local units with such a formula as will make the rate automatic and grant absolutely no control to Congress through which the organized educators may by their powerful lobbies dictate, and take over what little control now remains in the hands of the people.

How Shall We Finance?

Perhaps you are asking, what is the proper method for financing of educational costs? It is my opinion that *education should be financed from current income or revenues.* Should it ever become necessary, due to a failure of this source, to establish a capital tax, then that capital tax should fall upon all forms of capital and *not upon property alone.*

The income received by property should be established and it should pay its share of the cost of education exactly in proportion with all other forms of income, no less and no more.

The movement of farm people into the city and of city people into the rural sections points the way to a needed improvement in school finance. School districts should not be smaller than counties and in some cases, should include one or more counties, so that efficient school districts can be established wherein there will be a large enough enrollment to carry on a good educational program. Such a district would equalize the property tax among all the property owners of the district.

More uniform, equal and, if possible, scientific methods for the assessment of property should be made so that the taxes levied for school purposes shall fall uniformly and equally upon all property taxpayers.

Consideration should be given to the proposal that all railroad and utility property taxes be allocated for the education of the children and returned to the school districts on some sort of a per-pupil basis. Self evident is the unfairness of the present system, in which the concentration of railroads or utilities in a given county accrues to the benefit of that particular county while the income of those railroads and utilities is received from all of the counties.

Most states have a sales tax, some direct and others indirect. There is reason to feel that if the sales taxes were collected for educational purposes only, there would be a greater willingness on the part of the people to pay them. In

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Who Will Finance Commercial Property in the Future?

And Shall We Let the Government Take Over the Urban Mortgage Business as It Seems About to Do With the Farm?

By HORACE RUSSELL

FIFTEEN or twenty years ago farm financing was a major phase of the work of local businessmen. The original Federal Farm Loan Act provided a comparatively simple machinery to encourage sound financing of farm loans. It recognized the importance of private local initiative and responsibility by providing for National Farm Loan Associations and requiring every customer to participate to the extent of 5 percent. Later, production credit associations and cooperative banks were established on a similar basis. It is true that the private local participation was minor and that it would have been much better if the farmers and other local citizens had invested extensively in their local associations instead of nominally and had relied less upon the Wall Street market and, finally, the Government.

Only about *one-fourth* of the farmers are indebted to Farm Credit Administration, and yet in recent years the Government has been subsidizing this minority of farmers to the extent of about *one-fourth* of their interest cost. This subsidy is paid by all tax-payers. Bills were introduced in Congress this session by Congressman Jones, Chairman of the Agriculture Committee. One of these bills would fix a permanent rate on all of these farm loans of 3 percent per annum and, at the same time, would guarantee all farm loan bonds by the Government. It would further provide for more liberal lending, for much more liberal extensions, and for the elimination of all personal responsibility by eliminating deficiency claims without regard to ability to pay. Another bill would authorize the Secretary of Agriculture to make loans up to 90 percent of value; and, under certain conditions, a higher percentage to tenant farmers for purchase of farms, and these loans would be guaranteed by the United States.

The ultimate effect of what has taken place and present proposals, if we continue in the direction we have been going in farm credit, is that the Government will control farm credit and pretty effectually control a great number of farm families, and local private businessmen will be excluded from one of the oldest activities of private business because they cannot compete with a farm loan system which has the free use of the great credit of the United States and, further, is subsidized to the extent of about 25 percent of interest cost.

THE former counsel for the Federal Home Loan Bank Board here reviews real estate financing in three sections: farm, urban and commercial property financing. He thinks the federal government is well on its way to taking over completely farm mortgage financing and warns that lenders may well be on guard against a further intrusion of the federal agencies into urban mortgage financing. He feels that commercial property financing is being left wholly unprovided for except the third which the insurance companies will carry. Mr. Russell is a member of the Chicago Bar and engaged in private law practice.

This question deserves careful consideration by the real estate and mortgage interests of the country. I hasten to point out that the question is neither a partisan nor a party question. The present tendency appears to have as much support from one side of the aisle as from the other in Congress. Presently the candidates of both parties are making the same identical kind of promises to continue this system and extend it. Members of both parties indiscriminately are introducing bills in Congress to establish subsidy interest rates. Government subsidy entails Government control and results in exclusion of independent private business.

Savings and loan associations and similar institutions have always made about half of the urban home loans and continue to hold about one-third of them. Banks of different kinds have made about 25 percent of such loans, although their performance has been less reliable with the fluctuation of economic conditions. Insurance companies have made and held about 8 percent to 10 percent of such loans and the remainder have been made and held by individual, private, unregulated mortgage companies and others. The volume of home loans in the country before the depression was about twenty-one billion dollars and this was liquidated down to about seventeen billion dollars. Nearly five billion dollars a year was loaned in the 1920's, but this flow of credit declined to less than one billion dollars in the recent depression and is now back up to about two and one-half billion dollars.

Fortunately, in my opinion, our efforts to restore a normal flow of credit in urban mortgage lending has been to establish the same on the basis of strictly private enterprise with adequate competitive elements. HOLC was organized to meet an extreme emergency, but it was organized and has been operated upon the theory that the Government would not go in business except when confronted with absolute necessity, would disturb normal functions of business as little as possible and, finally, would get out as rapidly as possible without undue disturbance.

The insurance companies are again doing nearly their normal volume of urban home financing, but it should be distinctly kept in mind that this is *only about* 10 *percent of the business*. Banks of all kinds are again doing about their normal volume of home financing, but here it should be noted that this is induced by Government insurance of a large volume of their lending. I see no objection to Government insurance of

loans in emergency and on a temporary basis to encourage normal operation, but there are serious implications involved in any permanent scheme for the Government to endorse private notes upon such a large scale; and, finally, Government insurance, inasmuch as it carries the risk, is likely to result in Government control. Individuals and private mortgage companies are again doing nearly their normal share of home financing.

Views of Urban Lending

Here are two significantly outstanding observations upon the urban home mortgage situation. The first is that this phase of finance has been rehabilitated on a private enterprise basis and is going forward out of the depression with great assurance of more economic operation and of an ability to serve continuously. This has been done, it is true, with substantial Government aid, which in my opinion was fully justifiable. But the Government aid was extended in emergency times and is very rapidly being retired and the permanent program is 100 percent self-supporting without subsidy from the taxpayers.

The other outstandingly significant thing is that this phase of finance is being adjusted to provide continuous service. The insurance companies will take very little, if any, losses on account of their urban home mortgage loan investments and appear to be amply able to continue in this field indefinitely upon a reasonable basis. The amortized loan will make it much more feasible for banks to continue, even in hard times, to finance real estate to some extent. The savings and loan business appears to be clearly approaching a status of stability which will carry it through any economic situation upon an even keel.

The financing of commercial property is a problem which we have not even begun to solve. I made an address before the Pennsylvania Real Estate Board at Harrisburg in 1933 in which I urged the necessity, from the standpoint of real estate owners and their brokers, of the establishment in the market of a real estate security which would provide the money for financing commercial property, and I am still of the opinion that progress should be made in this direction. Some mistakenly believe that insurance companies can and will finance all commercial properties. The facts are that the insurance companies have never held more than about four billion dollars of commercial mortgage credits and that the companies cannot be expected within the next few years to go very far above this figure. At the same time, we need in this country twelve or fifteen billion dollars of commercial real estate credit. This question deserves our earnest and serious consideration. The real estate bond houses provided some ten billion dollars of such credit a few years ago and it would be most unfortunate for real estate and the investors if we must rely upon this haphazard system again.

"If a real estate finance corporation were formed upon a proper basis and its securities sponsored by the principal investment bankers of the country, a market approaching that for railroad bonds in size and importance would be created," Mr. Russell declares. "This corporation, with or without an underlying capital, should issue perpetual income debentures, retirable by the holder and callable by the corporation on a reasonable basis, but not providing an absolute obligation to pay a particular rate nor an absolute obligation as to definite maturity. It should loan money throughout the United States very much as insurance companies do on all types of commercial real estate . . ."

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Looking to the Future

I have discussed three phases of real estate financing. The farm phase is rapidly being taken over by the Government. We should carefully study that transition and consider whether or not we want the Government to take over the other two phases of real estate finance. The urban home mortgage phase has been almost completely rehabilitated for the private, local enterprise basis and is again functioning with the sharpest private competition, and the prospects are for long term stability in this field. Commercial property financing has been left wholly unprovided for, except for about one-third of it, which the insurance companies can and will carry. Something very definitely ought to be done in this field. Real estate owners and real estate brokers are distinctly interested in each of these problems. Conditions in 1932 and 1933, where real estate owners, brokers and investors in real estate securities suffered, should not be permitted to recur. Such conditions will recur, at least in a measure, unless we make very careful plans and execute them in this field of business. The people to do something about it are the real estate brokers, their principals, and those interested in real estate securities.

"I don't think the good banker will object to this extension of bank real estate loans," said Jesse Jones, and added that he had considered asking Congress for an extension to 20 years but decided on 15 because "it would be less shocking to bankers." He pointed out:

"There is in the banking fraternity a reluctance to make real estate loans. There probably will be until you get a new crop of bankers.

"I've got to fight with the Secretary of the Treasury about this. It's what we in the RFC believe in and what we asked Congress to do."

Each Appraisal Method Has Its Limitations If—

—the Other Methods Are Not Given Consideration in Forming Your View As to What the Property Is Worth

By LYLE H. OLSON

WITH our great technological developments, represented by the expansion in public utility and industrial enterprises, real estate still represents the most important part of our national wealth. Land and improvements for the nation as a whole are estimated at about $240,000,000,000 or 56 percent of total national wealth. This is against 16.4 percent for all public utilities; 11 percent for all personal property, including house furnishings; and 4.7 percent for machinery and equipment of manufacturing enterprises. Of this total value of real estate, approximately $26,000,000,000, or 10.8 percent, is tax-exempt.

With real estate values representing so large and important a part of our wealth, the national economy is severely affected when depressed conditions exist in the real estate market. Factors which have adversely affected real estate in the last decade were low rents, high direct taxes, increased cost of labor, governmental competition, high taxation of profits, high inheritance taxes, and uncertainty as to the future.

Studies show that the average annual rent per square foot for office space throughout the country has fallen from $2.23 to $1.45 in 1938. Three hundred sixty-nine office buildings, with more than 67,000,000 square feet of floor space, were assessed at $1,150,000,000, which resulted in real estate taxes averaging 50c per square foot of floor area. In New York the annual rent per room of high-class apartments in 1924, was $531—in 1938 it was $380.

Some of these factors have been aggravated in recent years by artificial means. Collective bargaining in the real estate field after 1935 resulted in higher building service costs, at the same time that the cost of building was increased by higher labor costs in construction and in the manufacture of building materials. Competition has become greater owing to the stimulus of government financing, and the insurance of loans by FHA. The threat of higher and higher taxes perhaps is the greatest depressant at the present time. Public protests, marches upon various state capitols, and petitions to Congress, appear in the news from time to time.

THE earnings approach to accurate appraisal has been somewhat over-emphasized in the real estate financing field, this author believes, and declares that its uncontrolled use has resulted in some of our large city "white elephant" skyscrapers. Mr. Olson is Vice President of The American Appraisal Company and recently spoke on the subject of appraisals in the real estate field at the 20th Anniversary Conference of the Association of Mutual Savings Banks.

While such general conditions affect real estate as a whole, there are other factors which bear unequally upon property owners, as, for example, fluctuations in community shopping and business centers, changes in municipal and transportation facilities, movements of business to new sections, or migration of residential population. High tax rates also have a part in this picture, causing the migration of business and, of course, a shifting of employees as well. In this respect, the New York metropolitan area is a glaring example.

In Brooklyn there is a busy commission area, where, since 1933, the land was assessed upon the basis of $1,700 per front foot, an increase over prior assessments. During the last few years there have been rapid declines in actual values in this vicinity. This, in main, results from the decentralized system of meat distribution because of the development of chain stores, particularly super-markets, diverting business to outlying warehouses supplying the chain stores, and growing acceptances of the "car-load" selling method, whereby "pre - sold" merchandise is delivered directly from cars in the railroad terminal to trucks for delivery to retailers.

In this particular case, this condition was accentuated by the change from German and Jewish to Italian dealers who switched from prime meat to the cheaper cuts—not handled by the commission houses. As a result of this change, several commission houses abandoned their places in this district, and allowed their properties to deteriorate, until in one instance the upper tenement stories were condemned by the Housing Department for residential use, and the upper floors padlocked. The result was the property, assessed for $71,000, actually was sold for $15,000. The old structure was sound, and the new owner, at a nominal expense, is converting the upper floors into office and loft space. To him the property probably is worth twice its purchase price, but still is less than 50 percent of assessed value.

Real estate is slowly recovering from a decade ago, during which losses from real estate investment was one of our major economic tragedies. This is indicated in part by a summary of 200 real estate bond issues, showing the market value of December 30, 1932, at 20.5 percent of the par value. From this low there was a recovery of more than 100 percent at the end of 1936, from which there has been a subsequent falling off. Some improvement was noted during the early months of this year in comparison with 1939. Boston issues showed the largest percentage of increase.

The taxes and mortgage interest paid upon real estate properties form an important element in the national income, and a major element in the support of our municipal government.

Here are some of the major purposes for which valuations of real estate are required: For assessing property taxes; for ascertaining the amount of mort-

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New Type Mortgage?

At the mutual savings banks conference recently mortgages came in for considerable discussion. The Committee on Mortgage Investments made a report which may well be interpreted as meaning that a new type of mortgage is needed today to compete with the FHA loan.

"Success of the FHA mortgage financing plans challenges the ability of mutual savings bankers to devise a type of mortgage which will more properly fit into their asset position and better serve depositors and borrowers," the report said.

But that wasn't all. The Committee went further and looked at the mortgage field more realistically:

"If the government is to be taken out of this business, some plan must be devised that will supplant it, providing control of over-production and type of construction required for our citizens."

The report had a good deal to say about FHA, about pre-payment clauses and other aspects of insured mortgage financing.

It ended with the thought that probably the best and most intelligent way to lift the tax burden, or part of it, from taxpayers' backs was through a sales tax.

What High Taxes Do

Desire for home ownership is rapidly disappearing in this country, Maurice F. Reidy, tax expert, told mutual savings bankers—and no place faster than in New England. His view:

"The savings of years are being taken away from people by high taxes, and their desire for home ownership is disappearing. The man who has lost his home has become a bitter citizen and his wife and children suffer. They have seen their savings being taken away from them because the entire burden of relief cost is imposed on them without justice and through the unwise action of those having authority to impose taxes.

"The HOLC in a recent report stated that on properties they hold by foreclosure the taxes that were collected amount to 40 percent of the rental income, and the Federal Home Land Bank on May 4, 1940, reports that 'today the real estate taxes have become an unbearable burden on the ownership of property and the taxes were a depressant on land value, a deterrent to its sale and a hazard to its economic stability.'

"Where is the remedy, for there must be a remedy? We cannot allow a social and economic injustice like this to continue."

Loans Up 12%

Home mortgage recordings on urban property by all types of lenders totaled \$818,731,000 in the first quarter this year, an increase of 12 percent over the same period in 1939.

Amounting to \$300,420,000, March home financing activity (i.e., mortgages of \$20,000 and under) was 18 percent greater than in February and 6 percent higher than in March, 1939.

Savings and loan associations accounted for almost half of the increased business. Banks and trust companies registered a gain of nearly 25 percent, insurance companies an increase of over 8 percent and recordings of individuals were up 17.7 percent.

EDUCATORS' INFLUENCE ON PROPERTY TAXES

(Continued from page 3)

connection with such a school sales tax there should be a definite limit on the property tax which should be low enough to mean something. The rate of the sales tax should be fixed by the state legislature for a 2-year period and the schools should submit their budgets for that period of time. When the total budgeted expenditures for school purposes are determined then deductions should be made for receipts from the property tax and other sources. The rate of the sales tax should then be fixed to raise the balance of the money necessary to run the schools.

To those who claim that this would have a measure of unfairness let me cite the property tax which is now the buffer and forced to pay all differentials between the total expenditures and the receipts from other sources.

If these two methods are found not to collect from all citizens and taxpayers their proportionate share of the cost of education, then other types of taxes may be resorted to. Cigaret taxes, liquor taxes, intangibles taxes, net income taxes, occupancy taxes on tenants, are now in the systems of various taxing units of this nation and could in part or in whole be devoted to the financing of education.

In our state we have an educational equalization fund which is distributed to school units which due to low assessed property valuations are unable to support their educational costs. Many of the suggestions that have been made for economy, changes of districts, changes of taxing system, will help to eliminate the need for this additional fund. However should the suggestions made not eliminate the need for it, then such a fund should be included in any school financing system with proper safeguards to keep it from being abused, as it has been abused in some of the states and by some of the units in my own state.

There should be equal education for all American children regardless of where they live and with the necessary cost borne by all in a fair, equal manner. The teacher should be paid for teaching the children and not on the basis of the location of the school or the number of letters behind her name. What we want is to have our children educated. There is much reason to believe that if the waste, inefficiency and injustices now existent in the educational finance systems of the United States were to be eliminated each child could have its inherent right to equal education fully satisfied and those charged with this work would be paid on a basis commensurate with the compensation of the taxpayer who pays the taxes. And the taxes would be collected on an equal and just basis.

Finally, the burden is not upon the present group of property taxpayers to pay more, but upon the present school administrators and educational organizations to do a better job and bring justice and equality into school administration finance.

A MUTUAL SAVINGS BANKER LOOKS AT APPRAISAL METHODS

(Continued from page 6)

gages allowable or allowed for purchase and sale; for public financing and the statement of an expert in the registration statement to be filed with the Securities and Exchange Commission under provisions of the Securities Act of 1933; to determine the value of the properties under the provisions of the Trust Indenture Act of 1939; in connection with bankruptcies, foreclosures and deficiency claims; for estate and inheritance taxes; for settlement of profit or loss in the case of sales under provisions of the Internal Revenue Department or by State officials in connection with income tax requirements; as a basis for the depreciation base and allowance for depreciation provision under the requirements of Treasury Decision 4422 and other regulatory enactments.

Now, the appraisal procedure and technique, with a definition of terms, vary substantially in accordance with the purpose for which the appraisal is to be used, and the circumstances affecting utilization of the property under conditions prevailing.

Within the term real estate, we are considering a wide range of properties, ranging from the undeveloped wild lands of the West, to the modern skyscrapers that adorn the island of Manhattan.

Past Over-Valuation

Variation in the types of buildings, however, was not as impressive as variation in their economic utility, ranging from the decrepit sections of a suburban community and the vast areas upon Manhattan that the centripetal and centrifugal forces of our urban development lay waste with locational and economic obsolescence—up to the modern grandeur that is Rockefeller Center. However, economic tragedies are not confined to the waste spaces; but are inherent in many useful and unparalleled skyscrapers that characterize Manhattan, monuments to the over-financing and over-valuation of the 20's.

The appraiser must assume a large part of responsibility for the maladjustments in real estate development, and responsibility for measurement of existing values that will assist in restoring economic stability in the real estate field.

Historically, appraisers "just grow," like Topsy, without the background that develops full realization of professional ethics and responsibility. Theoretically, we have passed through the era when appraisers were selected upon the basis of who could give the highest value, and even our newspapers print preachments by those who grant "lip service" to the ethical and technical standards to which adherence should be given by the appraisers.

Valuations, however, still are tinged by the psychology of salesmanship, with the recognition that the price of a given property may be high or low, depending upon the accidental condition controlling the individual sale. There is, however, and fortunately, an increasing recognition upon the part of appraisers, and those who engage appraisers, or rely upon appraisal reports, that there must be an underlying systematic method, a technological approach, analytical procedure, mathematical and logical record, plus the application of experienced judgment, to make appraising scientific in principle and capable of reason and convincing support. For the realization and effectiveness of such procedure, a background of long and varied experience, with precedence of established forms, procedures and conclusions, is desirable.

Who are appraisers? There is no monopoly or copyright of the term of appraiser. They may be generally classified:

The large numerical number of real estate agents, builders, architects, bankers and others who occasionally value property and, as such, act as appraisers.

Organization appraisers, such as those you employ and thousands in the employ of our state and Federal Government, who specialize in the inspection and valuation of real estate of different kinds. In this group may be considered the assessors.

The independent public appraisers whose services, like those of the public accountant, lawyer and engineer, are available to the general public upon a fee basis. These may be classified in two subdivisions:

Appraisers practicing individually, usually specializing in certain types of properties within a limited geographical area, and,

Appraisal organizations, covering a diversified range of properties in larger geographical areas, operated with staffs of appraisers; with specialists in different fields; with research, statistical, pricing, clerical, and typing departments; with standard practice, instructions and procedure, and executive personnel.

Methods to Use

The reproduction cost method of appraising as an approach to the value of a property is, perhaps, most commonly used, but under some circumstances it may not be entirely conclusive. Some persons think that they stand upon relatively solid ground if they know the cost of a thing. This is particularly true if the property was recently acquired. A property that has changed hands frequently may have several costs. However, the actual cost may be variable and the account recording the actual cost may include other elements of uncertainty. For many purposes, a knowledge of cost is desirable, and it should be a matter of record. Cost in any case must be modified by depreciation, or any practical application of the economic facts.

The other methods used—the comparison method— the earning method —are sound and correct approaches if properly used and adapted to the particular problem under consideration. Each one has its limitations, unless supplemented by the other, where conditions require. The earnings approach has been somewhat unduly emphasized in the real estate field. Its uncontrolled use has resulted in those Manhattan skyscrapers to which I referred. Estimates of future earning power, and the rate of capitalization, afford the widest opportunity for the exercise of an unlimited imagination and the arrival at results divorced from realities.

The reproduction and earnings approach should be part of the same equation. The normal cost of a new property is the reproduction cost. An investment is not made in a new property except with the belief that anticipated future earnings will be such as to make that investment represent value. Where new investments are being made, their value tends to be stable. Where new investments are not made or justified, their values are likely to be depressed. During the depression, values for some properties in some places descended to 50 percent of normal replacement cost, less depreciation. In some places they have recovered from that low level to a normal relationship, where values are equal to the cost of replacement, less depreciation. A normal comparison of value is the relation that value represents to the cost of replacement, less depreciation.